

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7712

Request of Vermont Gas Systems, Inc. to)
establish a System Expansion and Reliability)
Fund with funds provided by reductions in the)
quarterly Purchase Gas Adjustment rate under)
the Alternative Regulation Plan)

Order entered: 2/16/2011

ORDER RE: MODIFICATION OF ALTERNATIVE REGULATION PLAN
AND NOTICE OF PREHEARING CONFERENCE

INTRODUCTION

On February 7, 2011, Vermont Gas Systems, Inc. ("VGS") filed a request for an accounting order seeking to establish a "Vermont System Expansion and Reliability Fund" (the "Fund") for the purpose of meeting planning and development costs associated with VGS's potential expansion of service into the Vergennes and Middlebury, Vermont, market areas. Specifically, VGS requests authorization to establish and record the Fund on its books as a "Regulatory Liability." The Fund would be funded by deferring and escrowing savings that would otherwise be passed through to ratepayers from an anticipated rate reduction in its quarterly Purchase Gas Adjustment ("PGA") under VGS's Alternative Regulation Plan ("ARP" or "Plan"). VGS is requesting expedited review and approval by the Board by February 21, 2011, in order to be concurrent with VGS's filing of its upcoming PGA on February 22, 2011. VGS states that it is currently in discussions with the Vermont Department of Public Service (the "Department") for the purpose of developing a Memorandum of Understanding ("MOU") regarding the recovery of development costs for the proposed expansion.

On February 14, 2011, the Department filed a letter stating that it was "excited" about the possibility of natural gas expansion and had, therefore, entered into an MOU with VGS on the requested accounting order. Accompanying the MOU was a modified version of the accounting order proposed by VGS that, according to the Department, simplifies the gas cost sharing

calculation. The Department further states that it recognizes that the accounting order "has unique policy implications that will need to be addressed prior to any funds being applied to the expansion project." Finally, the Department reiterates VGS's statements that approving the accounting order only establishes the fund, but does not address cost recovery or specific projects; this concept is specifically embodied in paragraph 2 of the MOU.

In this Order, for the reasons stated below, we conclude that it is more appropriate to consider VGS's request for an accounting order as a request to modify its ARP, and we open a docket to consider the merits of VGS's proposal.

DISCUSSION AND CONCLUSION

On September 23, 2009, in Docket No. 7573, the Board approved VGS's request to renew its ARP pursuant to 30 V.S.A. § 218d. In that Order, the Board approved, among other elements of the Plan, the PGA rate mechanism whereby rates are adjusted quarterly based on the "Gas Costs" as defined under the ARP, with any cost savings or cost increases to be passed on to the ratepayers.¹ VGS's accounting order request would alter this arrangement, and would instead direct the money from gas cost savings under the Plan, that would take effect with bills-rendered April 22, 2011, to be deposited into the Fund. This constitutes a significant departure from the rate mechanism set out in the Plan since the Plan does not contemplate the deferral of cost savings as proposed by VGS. Deviating from this mechanism in the manner requested by VGS exceeds both the scope and the purpose of an accounting order (which are used to effect accounting treatment, not rate treatment), since the requested deferral of cost savings will have a direct impact on ratepayers by increasing the rates that they otherwise would pay as of the effective date of the upcoming PGA. In addition, VGS did not specify a duration for the proposed deferral or the Fund in its filing, thus making it difficult for us to consider the time period over which ratepayers would be required to forgo the anticipated cost savings. It appears that VGS seeks to collect funds above its costs on an indefinite basis.

VGS has requested that we issue a decision on the proposed accounting order by February 21, 2011, which leaves virtually no time to examine the policy implications of granting

1. See Docket No. 7537, Order of 9/23/09 at 2; appendix II "Alternative-Regulation Plan," attachment 2.

the accounting order (or modifying the Plan to allow for use of the gas adjustment money for other purposes) through a hearing or workshop process. For the reasons stated above, we are unable to provide the requested expedited review nor can we grant the requested relief through an accounting order. In particular, VGS's proposal raises significant questions that need to be examined prior to approving a substantial change to the Plan. At the same time, VGS contends that the planned expansion provides many potential benefits for Vermont and Vermonters, including a lower-cost source of energy, reduction of greenhouse gases, and a contribution to Vermont's economic development goals. Therefore, in light of these potential benefits, and rather than simply concluding that VGS's request can not properly be dealt with through an accounting order, we will treat it as a request to modify the terms of the current ARP and we conclude that good cause exists to establish a docket in this matter in order to hear the merits of VGS's deferral request.

We recognize that the Plan mechanism would require VGS to issue notice of the rate reduction by February 22 to be implemented with bills-rendered two months later. To ensure that the money that VGS proposes to use for the Fund remains available following our determination, during the period of time that we consider the merits of VGS's request, we authorize VGS to establish the proposed Fund, on an interim basis, and defer the savings obtained from the PGA by escrowing that money into the Fund. If we conclude that the Fund should not be approved, we will require VGS to return any amounts in the interim Fund to ratepayers. We will attempt to complete this proceeding before the effective date of the next PGA.

ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. Pursuant to 30 V.S.A. §§ 203, 209, and 218d, an investigation is commenced into whether Vermont Gas Systems, Inc. ("VGS"), should be authorized to defer the anticipated cost savings resulting from upcoming quarterly Purchase Gas Adjustment ("PGA") rates as the funding source for its proposed "Vermont System Expansion and Reliability Fund" (the "Fund"), to be recorded on VGS's books as a "Regulatory Liability," for the purpose of meeting the costs

of planning and development associated with VGS's proposed expansion into the Vergennes and Middlebury, Vermont, market areas.

2. Pursuant to 30 V.S.A. Section 10, the Public Service Board will hold a prehearing conference in this matter on Friday, February 25, 2011, commencing at 3:00 P.M. at the Public Service Board Hearing Room, Third Floor, People's United Bank Building (f/k/a Chittenden Bank Building), 112 State Street, Montpelier, Vermont.

3. During the course of this proceeding, VGS shall be authorized, on an interim basis, to establish the Fund to defer and escrow the upcoming cost savings from the quarterly PGA rates into the Fund. The Fund shall be set up as a restricted account and no disbursements shall be made from the Fund unless explicitly authorized by Board order. The Fund shall accrue interest at the customer deposit rate as defined under Board Rule 3.202.

Dated at Montpelier, Vermont, this 16th day of February, 2011.

<u>s/ James Volz</u>)	
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<u>s/ David C. Coen</u>)	
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<u>s/ John D. Burke</u>)	

PUBLIC SERVICE
BOARD
OF VERMONT

OFFICE OF THE CLERK

FILED: February 16, 2011

ATTEST: s/ Susan M. Hudson
Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)